

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2000-526-G – ORDER NO. 2001-007
JANUARY 2, 2001

IN RE: Joint Application of Atmos Energy)	ORDER APPROVING
Corporation (Atmos) and Piedmont)	TRANSFER OF
Natural Gas Company, Inc. (Piedmont) for)	CERTIFICATES AND
authority to transfer to Piedmont all of)	OTHER RELIEF
Atmos' rights and obligations under its)	
certificates of public convenience and)	
necessity authorizing it to provide natural)	
gas service in South Carolina.)	

This matter comes before the Public Service Commission of South Carolina (the "Commission") by way of the Joint Application of Atmos Energy Corporation ("Atmos") and Piedmont Natural Gas Company, Inc. ("Piedmont") for authority to transfer to Piedmont all of Atmos' rights and obligations under its Certificates of Public Convenience and Necessity authorizing it to provide natural gas service in South Carolina. In the Joint Application, Atmos and Piedmont request the Commission to issue an order (1) transferring to Piedmont all Certificates of Public Convenience and Necessity heretofore issued by the Commission to Atmos and/or its predecessors, (2) authorizing Piedmont to commence natural gas service in Gaffney and Cherokee County, South Carolina under the terms and conditions of service, including rates, approved for Atmos, and (3) authorizing Atmos to discontinue natural gas service in South Carolina all upon the effective date of the acquisition (the "Acquisition") by Piedmont of Atmos' South Carolina gas distribution and transmission business in Gaffney and Cherokee County,

South Carolina (“Atmos’ South Carolina Operations”) pursuant to the Asset Sale and Purchase Agreement dated October 10, 2000 (the “Acquisition Agreement”).

By letter dated October 25, 2000, the Commission’s Executive Director instructed the Joint Applicants to cause to be published a prepared Notice of Filing in newspapers of general circulation in affected areas. The Joint Applicants were also directed to furnish, by U.S. Mail, the Notice of filing to each customer of the Atmos natural gas service area. The Notice of Filing indicated the nature of the Joint Application and advised all interested parties desiring to participate in the proceeding of the manner and time in which to file the appropriate pleadings. The Joint Applicants subsequently furnished affidavits of publication and mailing that demonstrated that the Notice of Filing had been published and mailed as required.

A Petition to Intervene was received from the Consumer Advocate of South Carolina (“Consumer Advocate”), and the Consumer Advocate was made a party of record to this proceeding.

Pursuant to notice given in accordance with the applicable provisions of law and the Rules and Regulations of the Commission, a public hearing was held on December 27, 2000, at 2:30 p.m., in the Commission’s Hearing Room, with the Honorable William Saunders, Chairman, presiding. Appearances were entered by John E. Schmidt, III, Esquire, and Jerry W. Amos, Esquire, on behalf of the Joint Applicants, Hana Pokorna-Williamson, Esquire, on behalf of the Consumer Advocate and David Butler, General Counsel, on behalf of the Commission Staff.

The Joint Applicants presented two witnesses on their behalf -- Ware F. Schiefer, President and Chief Executive Officer of Piedmont, and Robert Elam, Vice President of Atmos. The Commission Staff presented two witnesses -- Brent L. Sires, Chief of Gas of the Commission's Utilities Department, and Norbert M. Thomas, Audit Manager I.

The Commission has carefully considered the evidence of record in this Docket and makes the following findings of fact and conclusions of law:

1. Piedmont Natural Gas Company, Inc., is a North Carolina corporation with headquarters in Charlotte, North Carolina. Piedmont is principally engaged in the natural gas distribution business and, as of March 2000, delivered gas to approximately 660,000 customers, including 115,000 in South Carolina. The largest of the South Carolina communities served by Piedmont are Greenville, Spartanburg and Anderson. Piedmont has been delivering natural gas to customers in South Carolina for almost 50 years.

2. Atmos is a corporation organized under the laws of the State of Texas, is engaged in the natural gas distribution business in the states of Colorado, Kansas, Kentucky, Louisiana, Missouri, South Carolina, Tennessee, Texas, and Virginia and has its principal place of business in Dallas, Texas. Atmos currently serves in excess of 1 million natural gas customers, including approximately 5,400 customers in Atmos' South Carolina Operations.

3. Following completion of the Acquisition, Atmos' South Carolina Operations will be owned and operated by Piedmont. Piedmont is an experienced and capable natural gas local distribution company. Piedmont has previously shown that it is ready, willing, and able to assume all of the regulatory responsibilities imposed upon natural gas utilities by the South

Carolina Code and by the rules and regulations of the Commission with respect to its existing utility operations in South Carolina, and it is ready, willing and able to do so with respect to Atmos' South Carolina Operations.

4. The Acquisition will offer a number of benefits to gas customers, including the following:

a. Atmos currently has 10 employees in South Carolina. Piedmont has approximately 225 employees in South Carolina. Piedmont will be able to call upon this larger base of employees to provide additional services to the area currently served by Atmos in South Carolina.

b. Atmos currently delivers approximately 2.3 mmdts. of natural gas annually in South Carolina. Piedmont currently delivers approximately 28 mmdts. of natural gas annually to customers in South Carolina. Piedmont obtains the gas supply for these deliveries from a number of sources, including various peaking and storage services. Access to these additional supplies and services should provide greater flexibility and reliability to the area currently served by Atmos in South Carolina.

c. Approximately 70% of Atmos' deliveries in Gaffney and Cherokee County are to industrial customers who have the ability to switch to alternate fuel, placing residential and other firm customers at risk to substantial increases in rates. Piedmont has a much larger base of customers over whom to spread this risk, greatly reducing the risk to any individual firm customer.

5. The Acquisition will not have an immediate effect on the rates of former Atmos customers. Upon the effective date of the Acquisition, Piedmont will charge Atmos' current gas customers in South Carolina the base rates currently approved in Atmos' Commission-approved

tariffs. Piedmont proposes to keep these base rates in effect through October 31, 2002 (two years following the date of the Acquisition Agreement). Effective November 1, 2002, Piedmont proposes to charge these customers the same rates then being charged to other South Carolina customers being served by Piedmont. If a customer elects to change his services prior to November 1, 2002, he would be charged Piedmont's rates.

6. Piedmont proposes to provide tariffed services to new customers in the Gaffney-Cherokee County area in the same manner and subject to the same rates and other tariff provisions currently applicable to new customers in Piedmont's other service areas in South Carolina.

7. Piedmont proposes to separately account for the gas costs for former Atmos customers for a transition period beginning with the effective date of the Acquisition and ending on March 31, 2001. Any over-recovery or under-recovery of gas costs attributable to the former South Carolina customers of Atmos will be refunded to or collected from these customers during a twelve-month "true-up" period. We currently anticipate that the twelve-month true-up period would begin on June 1, 2001 and end on May 31, 2002. At the end of the twelve-month true-up period, all of Piedmont's sales customers in South Carolina, including former Atmos customers, will have the same current gas costs included in their rates.

8. Piedmont proposes to separately maintain the Atmos Deferred Account and the Piedmont Deferred Account through March 31, 2001, at which time the two accounts will be consolidated into a single consolidated gas costs regulatory account (the "Consolidated Account"). Piedmont proposes to determine the credit or debit balance applicable to former

South Carolina customers of Atmos at March 31, 2001 and to place the appropriate decrement or increment in the rates of those customers to either refund or collect that balance. The appropriate decrement or increment will be determined by dividing the Atmos Deferred Account balance by the projected twelve-month sales to the former South Carolina customers of Atmos. If, at the end of the twelve-month “true-up” period, the decrement or increment does not refund or collect an amount exactly equal the March 31, 2001 balance in the Atmos Deferred Account, the difference would remain in the Consolidated Deferred Account for future distribution or collection from all of Piedmont’s South Carolina customers, including former Atmos customers. Similarly, Piedmont proposes to determine the credit or debit balance in Piedmont’s Deferred Account at March 31, 2001 applicable to existing customers of Piedmont and to place the appropriate decrement or increment in the rates of those customers to either refund or collect that balance. The Piedmont Deferred Account balance will include not only gas costs but also amounts related to Piedmont’s Weather Normalization Adjustment (“WNA”). The appropriate decrement or increment will be determined by dividing the Piedmont Deferred Account balance by the projected twelve-month deliveries to existing Piedmont tariff customers. If, at the end of the twelve-month “true-up” period, the decrement or increment does not refund or collect an amount exactly equal the March 31, 2001 balance in the Piedmont Deferred Account, the difference would remain in the Consolidated Deferred Account for future distribution or collection from all of Piedmont’s South Carolina customers, including former Atmos customers. Combined prudently incurred commodity and demand gas costs will be collected from all customers beginning April 1, 2001.

9. Beginning on the effective date of the Acquisition, interest on all of the Deferred Accounts would be calculated at the Commission-approved interest rate for Piedmont.

10. Atmos currently participates in an Exploration and Drilling (“E&D”) Program in which Atmos and its customers share revenues 25%/75%. Over the past 24 months, the revenues have averaged less than \$250.00 per month, and will decrease further as the wells are depleted. According to Atmos, these revenues will be substantially, if not entirely, offset by the costs of administering the E&D Programs, filing reports with the Commission, etc. Therefore, it is unlikely that there will be any future distributions to customers. The Atmos E&D Program is not a part of the assets being purchased by Piedmont. Atmos proposed to resolve any future liability to customers in the following manner: Atmos will determine the amount of revenue owed to customers at December 31, 2000, and deliver these revenues to Piedmont, who will place it in its deferred account as a credit to the Gaffney customers. Piedmont will include this amount in any future true-up of the deferred account so that customers receive full credit for these E&D revenues. Effective January 1, 2001, all liability to customers for future E&D revenues would be terminated.

11. The South Carolina gas properties of Atmos are located adjacent to Piedmont’s South Carolina gas properties. Piedmont has a strong commitment to increasing its presence in South Carolina as demonstrated by its past capital expenditures in South Carolina and its addition of customers at a rate that is approximately three times the national average. By integrating Atmos’ South Carolina gas properties into Piedmont’s current South Carolina operations, Piedmont will

have a larger customer base upon which to spread fixed costs and, therefore, the amount of fixed costs per customer will be less.

12. The Acquisition will add approximately 5,400 customers to Piedmont's customer base. As Piedmont grows, it (a) improves its access to capital markets, (b) increases its ability to employ qualified employees, and (c) generates new opportunities to control expenses through the integration of its operations and the spreading of fixed costs over a greater number of customers. These benefits will ultimately flow-through to customers.

13. The assets being purchased by Piedmont are being purchased at book value; therefore, no acquisition adjustment will be recorded on Piedmont's books.

14. Piedmont will pay cash for Atmos' South Carolina assets. These funds will be generated from the same sources used by Piedmont to add new customers to its existing system; *i.e.*, it will initially come from short-term loans that will ultimately be repaid by long-term debt and equity financing. In this manner, all of Piedmont's customers in South Carolina will be supported by the same capital structure.

15. Piedmont will apply the depreciation rates previously approved by the Commission for Piedmont to the Atmos depreciable assets.

Based on the above findings and conclusions, this Commission finds and concludes that Piedmont should be granted a Certificate of Public Convenience and Necessity, and such issuance is in the public interest and will not impair the adequacy or dependability of service to the public as authorized by the Commission.

IT IS THEREFORE ORDERED THAT UPON THE EFFECTIVE DATE OF THE ACQUISITION:

1. That all Certificates of Public Convenience and Necessity heretofore issued by the Commission to Atmos and/or its predecessors to provide service to customers in Gaffney and Cherokee County, South Carolina, are hereby transferred to Piedmont;

2. Piedmont is hereby authorized to commence natural gas service in Gaffney and Cherokee County, South Carolina under the terms and conditions of service set forth in the findings and conclusions of this Order;

3. Atmos is hereby authorized to discontinue natural gas service in South Carolina upon the effective date of the Acquisition by Piedmont of Atmos' South Carolina gas distribution and transmission business in Gaffney and Cherokee County, South Carolina;

4. Through October 31, 2002, Piedmont is hereby authorized to charge former Atmos customers who do not elect to change their services the Atmos base rates previously approved by the Commission;

5. On and after November 1, 2002, Piedmont is authorized to charge former Atmos customers who do not elect to change their services the Piedmont base rates approved by the Commission for Piedmont for its other South Carolina customers on and after November 1, 2002;

6. Piedmont shall notify current customers of Atmos in Gaffney, South Carolina, within forty-five (45) days of the date of this Order, of the approval of this acquisition, and that the base rates will be capped for a period of two years beginning November 1, 2000.

7. Piedmont is hereby authorized to compute and collect from former Atmos customers during the period from closing to March 31, 2001, the prudently incurred commodity and demand gas costs based on the gas supplies and services in existence for those customers on the closing date of the Acquisition;

8. Piedmont is hereby authorized to compute and collect from Piedmont's customers, including new customers in Atmos' current service area, during the period from closing of the Acquisition to March 31, 2001, the prudently incurred commodity and demand gas costs based on the gas supplies and services in existence for Piedmont customers on the closing date;

9. Piedmont is hereby authorized to compute and collect from all of its customers, including former Atmos customers, its combined prudently incurred commodity and demand gas costs beginning April 1, 2001;

10. Piedmont is hereby authorized to collect any under-collection or to refund any over-collection that exists in the Atmos deferred account at March 31, 2001 from or to former Atmos customers during the period June 1, 2001 through May 31, 2002 in the manner set forth in the above findings and conclusions;

11. Piedmont is hereby authorized to collect any under-collection or to refund any over-collection that exists in the Piedmont deferred account at March 31, 2001 from or to Piedmont customers, including new customers located in Atmos' former service area, during the period June 1, 2001 through May 31, 2002 in the manner set forth in the above findings and conclusions;

12. Piedmont is hereby authorized to provide service to former Atmos customers under Piedmont's Commission-approved tariffs and service regulations, Commission orders affecting Piedmont, Piedmont's policies and procedures affecting customers and, except for the transitional treatment relating to rates, gas costs and deferred accounts, to otherwise treat such customers in an identical manner to Piedmont's other South Carolina customers;

13. Piedmont is hereby authorized to apply its Commission-approved depreciation rates to the depreciable assets being purchased by Piedmont in the Acquisition;

14. Atmos is hereby directed to determine the amount of revenue owed to customers under the Atmos E&D Program at December 31, 2000, and to deliver these revenues to Piedmont, and Piedmont is hereby directed to place such revenues in its deferred account as a credit to the Gaffney/Cherokee Counties customers and to include such revenues in any future true-up of the deferred account so that such customers receive full credit for these E&D revenues;

15. Upon compliance with decretal Paragraph 14 of this Order, all liability to customers for future Atmos E&D revenues will be terminated effective January 1, 2001;

16. Piedmont is hereby directed to file with the Commission within 7 days of this Order, a rider to its tariffs to set forth the applicable rates for former Atmos customers in Gaffney and Cherokee County;

17. To the extent, if any, that any waivers may be necessary or appropriate to permit Piedmont and Atmos to effectuate the Acquisition in accordance with the terms and conditions of

the Acquisition Agreement and to operate in the manner set forth in decretal Paragraphs 1 through 14 above, such waivers are hereby granted; AND

18. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)